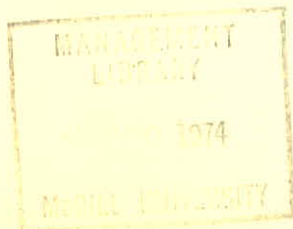


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**Second
Quarter Report
Diversified
Investment Funds
April 1 to
June 30, 1974**



The Diversified Investment Funds

The Diversified Investment Funds were established January 1, 1967 and are operated for the collective investment and reinvestment of non-taxable monies. The Funds are fully managed by International Trust Company and consist of four separate investment portfolios: the Canadian Equity Fund; the International Equity Fund; the Fixed Income Fund; and the Mortgage Fund.

Additions to, or withdrawals from, each Fund, or inter-Fund transactions, are effected on monthly valuation dates at net asset value. Income earned is distributed monthly.

This Report is concerned primarily with investment composition and performance.



ON THE FLOOR
THE TORONTO STOCK EXCHANGE—1917

We are probably at a very important turning point in the economy right now. The governments of all the major industrialized countries are following policies of varying degrees of fiscal and monetary restraint, which have produced a slowdown in the world economy. These policies have been introduced in a deliberate attempt to reduce the rate of inflation, and it is hoped that some evidence of this desirable result will be seen later this year and in 1975.

The Organization for Economic Cooperation and Development (OECD) in its mid year forecast has estimated a rate of growth in real GNP of 1.5% in 1974 for its 24 member group. This is down from 6.4% in 1973 and 5.7% in 1972. The major drop is estimated to have occurred in the first half of the year.

An actual decline of .5% in real GNP is forecast for the largest and most dominant country, the U.S., and a decline of 1.5% for the United Kingdom.

According to the OECD analysis, Canada will experience a growth of 4.75% in real GNP this year, making it the strongest major economy in the industrialized world, exceeded only by Norway and Spain.

For the U.S. and Canada the OECD estimates are only slightly different from our own. The general trend, however, is the same and arises from the same causes.

The OECD also forecasts a high rate of inflation for 1974. For the total group, an increase of 11.25% in Gross National Product prices is estimated. Japan, with a 22.5% inflation rate, is having the worst inflation experience, actually double the average expected for the group. The estimate for Canada and the U.S. is 9% somewhat below the average and relatively low.

It is significant that Canada was the country in the OECD group that was least affected, both psychologically and in actual fact, by the shortage of oil in the first quarter of the year. Oil has become more available, but the high price is undoubtedly still affecting demand, which is being additionally influenced by the restrained fiscal and monetary policies. Moreover, the increased price of oil has brought major balance of payments problems in its wake. These are not going to be so easily resolved, and indeed, have already brought Italy to the point of extreme danger.

The committee of twenty of the International Monetary Fund directed themselves to this question in June. The agreement reached at this recent meeting developed an additional significance to the use of special drawing rights (SDR's) as a reserve asset. Nations who are forced to borrow to cover balance of payments deficits originating from an imbalance in the cost of oil imports can now use their gold reserves, valued closer to market, as collateral.

Other proposals at the June meeting were designed to minimize potential trade wars. It was feared that each nation faced with an oil induced balance of payments problem would seek to increase exports at the expense of its neighbours.

If international currency markets settle down as a result of this, and if inflation cools off somewhat, our forecast of a resumption in real growth in the economies of the industrialized countries is likely to be realized.

In Canada we expect that capital spending will be a strong feature of the economy. As soon as world demand turns up again, shortages of many of the basic materials will reappear, and the economic necessity of rebuilding supply will be the principal stimulant to the growth in capital spending. At the same time, consumer spending could remain at a reasonably high level so that the general economic setting could be quite strong in 1975.

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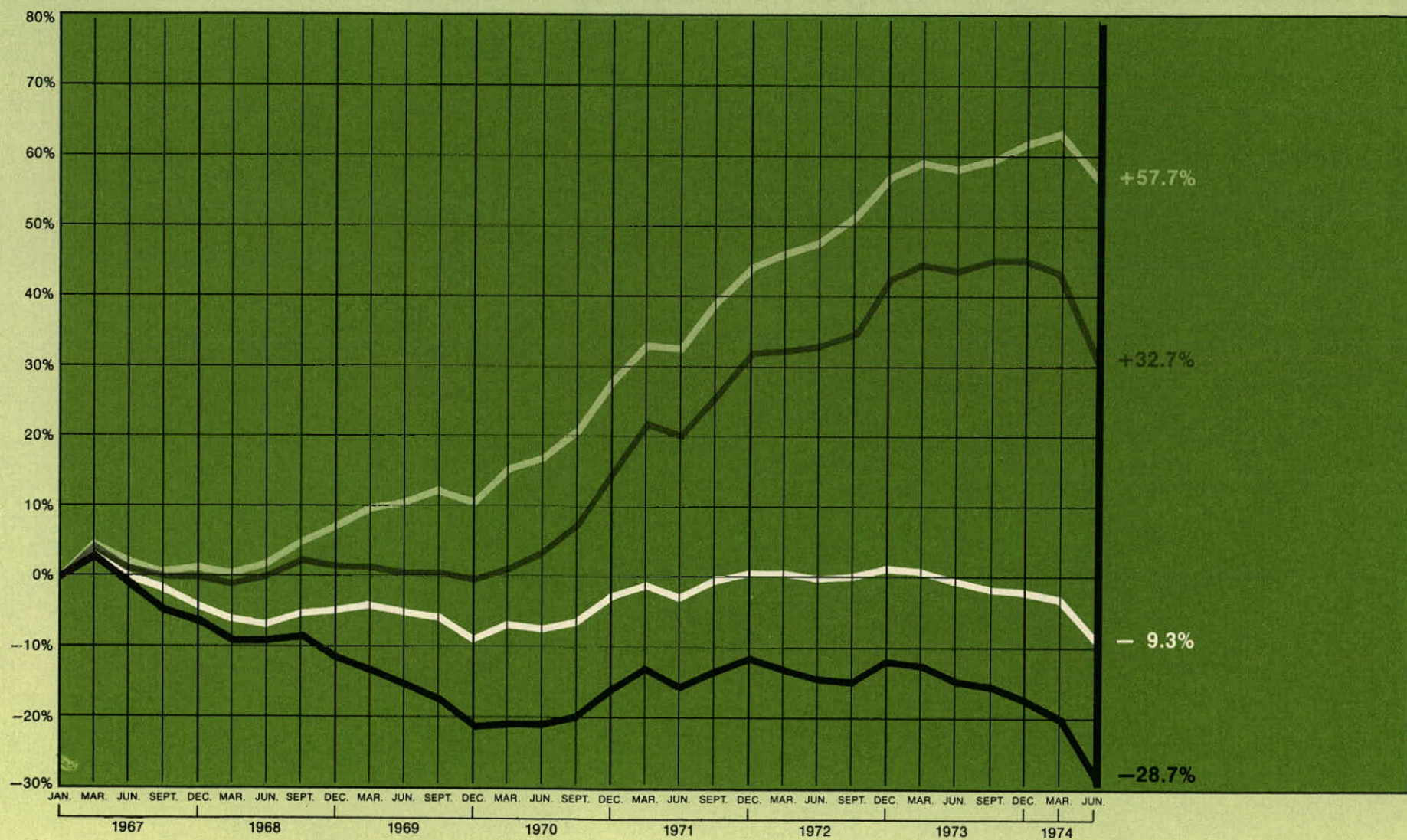
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Fixed Income Fund

Comparisons between	GRAPH COLOUR	VALUE JUN. 30/74	VALUE MAR. 31/74	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
Fixed Income Fund	□	\$ 9.07	\$ 9.61	-5.6%	- 9.3%
Fixed Income Fund (Incl. Income)	■	\$ 15.77	\$ 16.36	-3.6%	+57.7%
40-Bond Index	■	47.37	52.60	-9.9%	-28.7%
40-Bond Index (Incl. Income)	■	217.77	235.84	-7.7%	+32.7%

Average Yield to Maturity:
Mar. 31, 1974 8.93%
Jun. 30, 1974 10.26%



Fixed Income Fund

Investment Portfolio

Bonds/Convertible Bonds 79% Par Value

Market Value Jun. 30, 1974

\$200,000	Prov. of Alta. 8½% Apr. 15/90 Prepay Apr. 15/75	\$ 197,000
150,000	Man. Hydro 9% Apr. 1/90 Prepay Apr. 1/75	148,500
225,000	Hydro Elec. Pwr. Comm. of Ont. 9% Apr. 1/94	200,250
325,000	Prov. of Quebec 8% Mar. 1/99	279,500
200,000	Prov. of Sask. 8¼% Dec. 1/90	181,000
250,000	Prov. of Sask. 8¼% Dec. 3/98	211,250
200,000	Algoma Steel 10% Jun. 1/94	196,500
400,000	Alum. Co. of Canada 9% Jan. 2/91	372,000
300,000	Ashland Oil Can. Conv. 5% Jan. 15/93	207,000
600,000	BM-RT 6¼% Apr. 1/78 Cum. Wts.	541,020
500,000	Bank of Montreal 7% April 1/78—7½% Apr. 1/92	453,750
400,000	Bank of Nova Scotia 6¼% Jul. 1/78—7% Jan. 1/92	360,000
375,000	Bank of Nova Scotia 7½% Jan. 1/88 Prepay Jul. 1/79	337,500
200,000	Bell Canada 8% May 1/77 Ext. 8¼% May 1/90	190,000
250,000	Bell Canada 9¼% Jun. 30/79	247,500
300,000	Bell Canada 9% Aug. 14/90	279,375
400,000	Bell Canada 8% Aug. 1/93	338,000
300,000	Beneficial Fin. of Canada 9% Jan. 2/91 Prepay Jan. 2/76	295,500
200,000	B.C. Telephone 8¼% Jan. 15/81	188,000
250,000	B.C. Telephone 9¼% Apr. 15/98	230,000
500,000	Canadian Imperial Bank of Commerce 7¼% Dec. 15/92 Prepay Dec. 15/78	449,375
120,000	Consumers Gas Conv. 5½% Feb. 1/89	87,600
200,000	Distillers Corp.—Seagrams 7% Dec. 15/78	179,000
300,000	Dominion Foundries and Steel 9% Feb. 1/91	270,000
200,000	Great Plains Dev. Conv. 5% Feb. 1/93	203,000
150,000	Gulf Oil 8½% Dec. 1/74	148,312
200,000	Gulf Oil 8% Sept. 15/75 Ext. 8½% Sept. 15/90	195,500
300,000	Hudson's Bay Company 9¼% May 1/79	294,000
200,000	Hudson Bay Mining & Smelting 9% Jun. 15/91	176,000
300,000	Interprovincial Pipe Line 9% Dec. 1/90	276,000
300,000	John Labatt 9¼% Sept. 1/90	273,000
200,000	John Labatt 9% Mar. 15/94	178,000

Bonds/Convertible Bonds 79% Par Value

Market Value Jun. 30, 1974

200,000	Maritime Tel. & Tel. 8¼% Jun. 15/77 Ext. Jun. 15/90	191,250
300,000	Molson Industries 8¼% Nov. 1/91	249,000
100,000	N.B. Tel. 9¼% Jun. 1/90 Prepay Jun. 1/75	99,000
200,000	Noranda Mines 9¼% Oct. 15/90	183,000
400,000	Pacific Petroleum Conv. 5% May 1/92	288,000
350,000	Royal Bank of Canada 7% Apr. 15/91 Prepay Apr. 15/77	325,500
100,000	Simpsons-Sears Acc. 9½% Feb. 1/90 Prepay Feb. 1/75	99,500
400,000	Steel Co. Canada 9¼% Nov. 1/90	368,500
200,000	TDRI Conv. 5½% Feb. 15/93	202,000
225,000	TransCanada Pipe 10% Jun. 20/90	216,000
400,000	TransCanada Pipe 9¼% Sept. 20/90	376,000
		<u>\$10,781,182</u>

Reserve 21%

Cash & Short-Term Notes	2,922,466
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Total Assets at Market June 30, 1974

\$13,703,648

The Fixed Income Fund declined 5.6% during the second quarter of 1974 which compares to a decline of 9.9% in the McLeod, Young, Weir 40-Bond Index. When income is included, the Fund was off 3.6% as compared to the Index which was off 7.7%.

Interest rates continued to increase dramatically throughout the quarter with the greatest increase being in the short term money market. The mid term market rates also increased with the result that from 5 to 25 years there was almost no yield differential. The net result of these disproportionate increases throughout the yield curve was a negative yield reminding one of the yield curve in 1969-1970. Negative or inverse yield curves are typical of times of uncertainty when both lenders and borrowers hesitate to make long term commitments.

Short term interest rates rose to record high levels approaching 12.00% in April, before declining moderately in May, and firming again in June to close the quarter at 11.25%. When interest rates were at their peak, the spread between the rate paid by top quality borrowers and secondary borrowers widened 50 to 100 basis points. At these record high rates, lenders became very quality conscious and many of the secondary credits were unable to borrow at any rate in the money market. This required borrowers to use their bank lines of

credit putting additional pressure on the banking system which increased its prime loan rate to a record 11.00%-11.50%. Neither the record high rates in the short term money market nor the high prime interest rates seemed to have any serious effect on the demand for funds during the quarter.

Long term interest rates also rose during the quarter surpassing the levels experienced in 1969-1970. By the end of the quarter, long term Government of Canada bonds were trading at 10.00%, top quality provincial bonds at 10.25% to 10.30%, and prime quality corporate bonds at a 10.50% to 10.60%. These levels represent increases of more than 125 basis points over those which prevailed at the end of the first quarter. The corporate calendar was not very heavy since only top quality borrowers could expect to have successful issues. At these high interest rates, investors were prepared to give up some yield in return for quality. The issues of junior companies had to be postponed since there was little likelihood of their coming to the market successfully. In June the corporate calendar began to build up with some of the best quality names in Canada.

The continued high rate of inflation during recent periods, coupled with the lack of evidence that there is any immediate prospect of the Government taking positive steps to reduce or halt inflation, has caused investors to demand a nominal rate of return that after adjusting for inflation will give a positive real rate of return. Investors

began to demand this inflation premium only after prolonged periods of inflation; consequently it can be expected that they will continue to demand this premium even after it has begun to decline. Thus we can expect to see high interest rates for some time after inflation begins to decline. Borrowers have been financing capital expenditures through internally generated cash flows and short term borrowing either from the chartered banks or in the money market. At some time the large capital expenditures, which have been made in the past few years, will have to be funded in the long term debt market. This factor should also maintain upward pressure on rates.

The policy of the Fixed Income Fund has continued to be that of maintaining a large cash reserve as

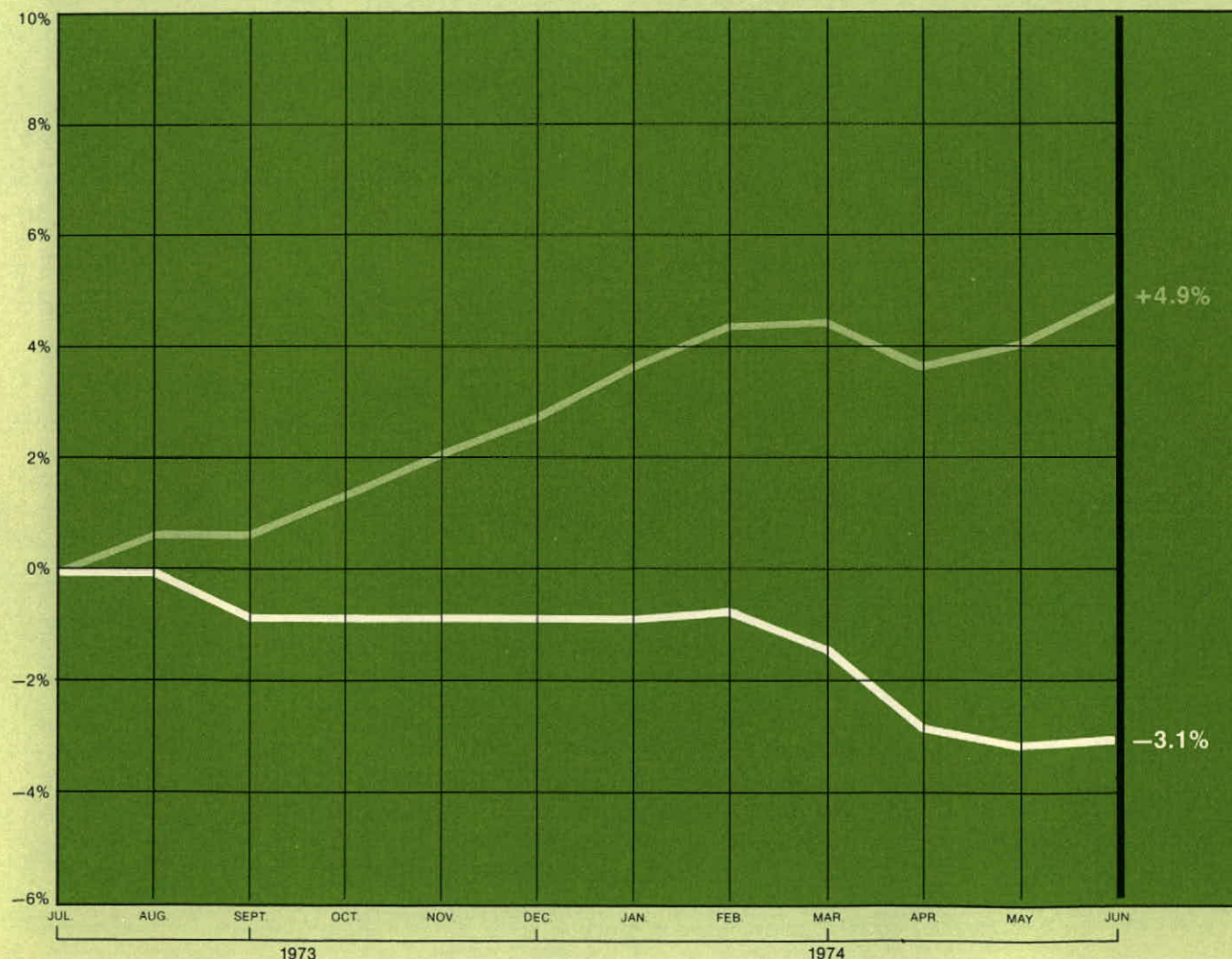
is evidenced by the 21% cash reserve position held throughout the quarter. During most of the quarter there has been no penalty for remaining invested in short term notes since these rates have generally been higher than long term rates. We will continue to pursue this strategy until such time that we feel long term rates have stabilized and will then commit our reserves to the bond market. We feel that the mid term market will provide attractive investment opportunities, since yields at that term are very close to those of long term rates, and when a normal yield curve is established, mid term issues should provide opportunities to realize capital gains.

Portfolio Composition:

	Mar. 31, 1974	Jun. 30, 1974
Reserve	21%	21%
Canadas	0%	0%
Provincials	11%	9%
Corporates	60%	63%
Conv. Debs.	8%	7%
	<u>100%</u>	<u>100%</u>

Comparisons between

	GRAPH COLOUR	VALUE JUNE 30/74	VALUE MARCH 31/74	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
Mortgage Fund	□	\$ 9.69	\$ 9.86	-1.7%	-3.1%
Mortgage Fund (Incl. Income)	■	10.49	10.45	+ 0.4%	+ 4.9%



The unit value of the Mortgage Fund declined from \$9.86 to \$9.69 during the second quarter of 1974, a drop of 1.7%. Including income the mortgage units increased from \$10.45 to \$10.49, an increase of 0.4%.

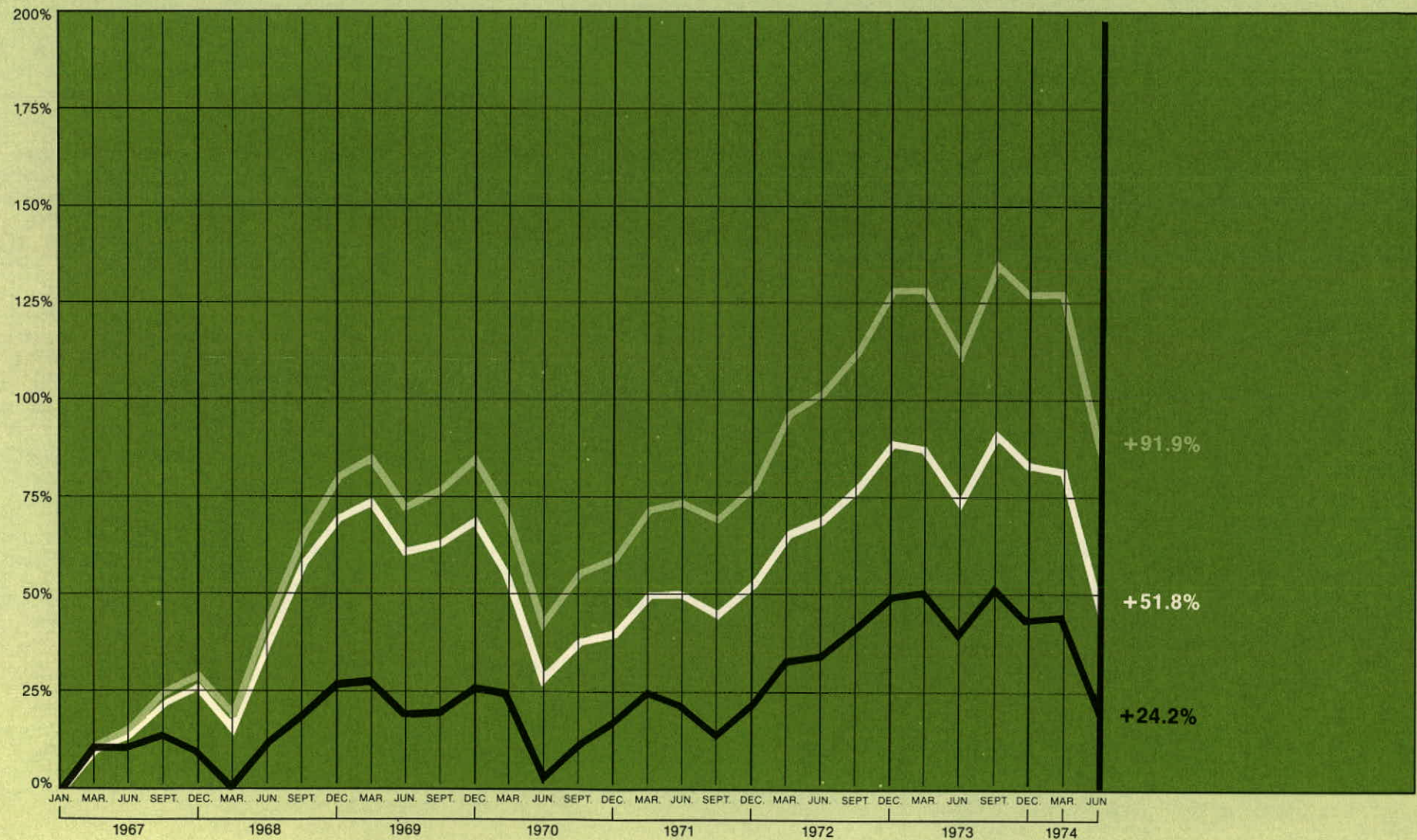
Mortgage rates in general increased during this period. The relative short term of current holdings helped to cushion the decline in unit value. Furthermore, a substantial cash reserve has been accumulated. This reserve was over 25% as of June 30, 1974 and was a positive factor. Future commitments have been made for the Fund and these will result in net rates of 11% plus after servicing.

In the secondary market, offerings that were relative to new project rates were not shown in any size during the first two months of the current quarter. Holders of outstanding mortgages were reluctant to sell at going levels due to the loss involved. However, toward the end of the period some offerings came to the market in the 10½% to 10¾% net range.

The Fund continues to invest solely in NHA government insured mortgages. The spread available between NHA insured mortgages and the conventional market still remains relatively narrow and at current high rates, we do not feel it proper to reach for the extra basis points. At this time safety of principal is utmost in our policy decisions.

Canadian Equity Fund

Comparisons between	GRAPH COLOUR	VALUE JUNE 30/74	VALUE MARCH 31/74	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
Canadian Equity Fund	□	\$ 15.18	\$ 18.24	-16.8%	+ 51.8%
Canadian Equity Fund (Incl. Income)	■	\$ 19.19	\$ 22.77	-15.7%	+ 91.9%
T.S.E. Industrial Index	■	183.39	215.29	-14.8%	+ 24.2%



Par Value Shares	Convertible Securities or Common Stocks	Market Price	Market Value June 30/74	Par Value Shares	Convertible Securities or Common Stocks	Market Price	Market Value June 30/74
Banks—13.9%							
26,000	Bank of Nova Scotia	31¾	\$ 825,500	18,300	Cominco Ltd.	27½	503,250
47,500	Canadian Imperial Bank of Commerce	23½	1,116,250	17,000	Hudson Bay Mining & Smelting	18½	314,500
28,500	Royal Bank of Canada	29¾	851,438	18,800	International Nickel Co.	26¾	502,900
22,500	Toronto-Dominion Bank	34¼	770,625	13,500	McIntyre Porcupine Mines	29½	398,250
			\$ 3,563,813	34,000	Mattagami Lake Mines Ltd.	13¾	463,250
Beverages—4.5%				14,200	Noranda Mines Ltd. Class A	38¼	543,150
20,000	Brights, T. G. Class A	14	\$ 280,000	26,500	Placer Developments Ltd.	20	530,000
15,200	Distillers Corp. Seagrams Ltd.	36¾	556,700	25,500	Rio Algom Mines	24¾	631,125
6,900	Hiram Walker Gooderham & Worts	45¼	312,225	28,000	Sherritt-Gordon Mines Ltd.	8¾	227,500
			\$ 1,148,925				\$ 5,499,425
Communications—5.0%				Office Equipment—1.7%			
20,500	Southam Press Ltd.	26½	\$ 543,250	9,000	Moore Corporation	48½	\$ 436,500
35,000	Standard Broadcasting Corp.	7¾	271,250	Oil & Gas—12.4%			
38,500	Toronto Star Ltd. Class B	12½	481,250	14,000	Aquitaine Co. of Canada	24¾	\$ 337,750
			\$ 1,295,750	6,000	Bow Valley Industries Ltd.	17½	105,000
Construction & Materials—1.7%				14,300	Canadian Superior Oil Ltd.	40¼	575,575
23,800	Genstar Ltd.	18¼	\$ 434,350	10,000	Gulf Oil Canada Ltd.	25¼	252,500
Forest Products—11.4%				9,300	Home Oil Co. Ltd. Class A	34½	320,850
65,000	Abitibi Paper Co. Ltd.	11	\$ 715,000	15,000	Hudsons Bay Oil & Gas Co.	28	420,000
25,000	British Columbia Forest Products	14¾	368,750	20,500	Husky Oil Ltd.	15¾	322,875
31,000	Domtar Limited	25	775,000	19,000	Pacific Petroleum Ltd.	18¼	346,750
30,000	MacMillan Bloedel Limited	25½	765,000	24,000	Shell Canada Ltd. Class A	13¾	321,000
23,000	Price Co. Ltd.	13	299,000	15,000	Siebens Oil & Gas Ltd.	12½	187,500
			\$ 2,922,750				\$ 3,189,800
Insurance—8.3%				Real Estate & Hotels—0.7%			
12,500	Crown Life Insurance Co.	61½	\$ 768,750	34,000	Commonwealth Holiday Inns of Canada	5¾	\$ 195,500
11,500	Great West Life	58	667,000	Steel—6.1%			
58,000	MICC Investments Ltd.	12	696,000	14,800	Algoma Steel Corp. Ltd.	28	\$ 414,400
			\$ 2,131,750	15,000	Dominion Foundries & Steel	29	435,000
Merchandising—3.1%				24,000	Steel Company of Canada	30¾	729,000
3,300	Canadian Tire Corp. Class A	37¾	\$ 124,575				\$ 1,578,400
20,000	Simpsons-Sears Ltd. Class A	11¼	225,000	Trust & Loan—1.2%			
19,300	Woodward Stores Ltd. Class A	23	443,900	14,000	Huron & Erie Mortgage	22½	\$ 315,000
			\$ 793,475	Reserve—8.6%			
Mines & Metals—21.4%				Cash and Short Term Notes			
38,000	Alcan Aluminium Ltd.	27¾	\$ 1,059,250				\$ 2,200,548
30,000	Bethlehem Copper Corp.	10¾	326,250	Total Assets at Market, June 30, 1974			
							\$25,705,986

Portfolio Balance

	June 30/73	March 31/74	June 30/74
Common Stocks & Equivalents	92.9%	94.3%	91.4%
Reserve	7.1	5.7	8.6
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Portfolio Composition

	June 30/73	March 31/74	June 30/74
Consumer Products & Services	42.2%	38.2%	36.7%
Cyclical	31.3	39.1	40.6
Energy	10.9	15.4	12.4
Regulated	2.3	—	—
Technology	6.2	1.6	1.7
Reserve	7.1	5.7	8.6
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Largest Common Stock Holdings as at June 30, 1974 (By Market)

	Percent of Total Portfolio
Canadian Imperial Bank of Commerce	4.3%
Alcan Aluminium Ltd.	4.1
Royal Bank of Canada	3.3
Bank of Nova Scotia	3.2
Domtar Limited	3.0

The Canadian stock market was in a steady decline during the quarter, relieved only by a brief rally in June. The Toronto Stock Exchange Industrial Index fell from 215.29 at 31 March to 183.39 at 30 June 1974.

For the quarter the Index was down 14.8%, and for the twelve months ended 30 June 1974, it was off 11.9%.

The chemicals were the strongest group in the quarter being up 7.3%, and they were the only group which was actually up. The next best performance was by the steels, and they were actually down 1.8%. Communications were down 3.7% and were next best, and then the utilities, down 8.1%.

The weakest groups were the western oils, down 30.3% on the quarter followed by oil refining down 28.0%, golds down 26.9% and real estate down 24.3%.

The natural resource group continues to be affected by increased government taxation. The oils were badly hit in the second quarter by the implications of the federal budget, introduced into the House of Commons and subsequently defeated in a vote in the House, which led to the election of 8 July. Since that election resulted in a majority government for the Liberal Party, it is likely a similar budget will be re-introduced in the fall. In the meantime we might expect some Federal-Provincial meetings to discuss the taxation of natural resource industries, and hopefully some reasonable arrangement can be arrived at in the not too distant future.

The price-earnings ratios continued to decline in the second quarter. Earnings were up somewhat and prices were down. The Index is now under nine times earnings and many individual stocks are selling for half this amount.

Price Earnings Ratio—T.S.E. Industrial Index

31 Dec. 1972	31 Dec. 1973	31 Mar. 1974	30 June 1974
17.6	12.6	11.4	8.9

Dividend returns have improved dramatically. The yield on the Index is hovering around 4.5%, having climbed strongly from 3.5% a few months ago, or under 3% a year ago. Indeed, yields on some individual stocks are as high as 10%.

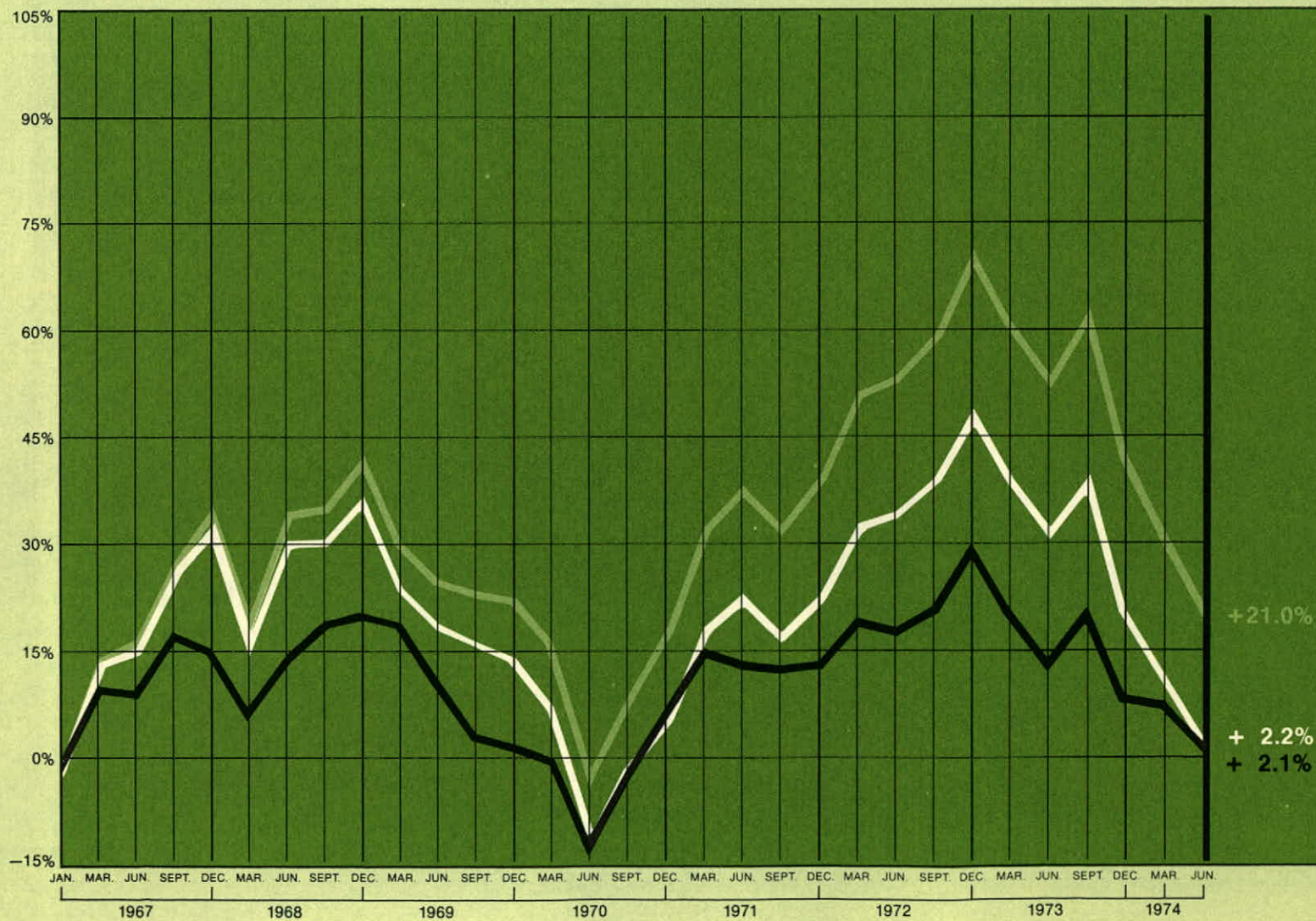
There were only a few changes which took place in the portfolio during the quarter. One new stock, Dominion Foundries and Steel, was added and the existing position of B.C. Forest Products was increased.

The Fund was 41% invested in the cyclical category at 30 June 1974. This is an increase from 33% at year end. The consumer sector remained at 37% down from 41% at year end.

The cash reserve at 8.6% was slightly above where it stood at year end.

International Equity Fund

Comparisons between	GRAPH COLOUR	VALUE JUNE 30/74	VALUE MARCH 31/74	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
International Equity Fund	□	\$ 10.22	\$ 11.14	—8.3%	+ 2.2%
International Equity Fund (Incl. Income)	■	\$ 12.10	\$ 13.11	—7.7%	+ 21.0%
Dow Jones Industrial Average	■	802.41	846.68	—5.2%	+ 2.1%



International Equity Fund

Investment Portfolio

Par Value Shares	Convertible Securities or Common Shares	(U.S.) Market Price	(CDN.) Market Value June 30/74	Par Value Shares	Convertible Securities or Common Shares	(U.S.) Market Price	(CDN.) Market Value June 30/74
Banks—10.3%				Miscellaneous—9.7%			
15,000	Citizens Southern National Bank of Georgia	9¼	\$ 134,893	7,000	Caterpillar Tractor	58¾	\$ 399,817
22,000	First Chicago Corp.	27%	590,855	20,000	Huyck Corporation	26½	515,266
5,164	First International Bank Shares	38%	139,915	3,000	Masco Corp.	39	113,747
11,000	J. P. Morgan & Co. Inc.	51¾	553,425	7,000	Minnesota Mining & Manufacturing Co.	73½	500,197
8,000	North Carolina National Bank	20	155,552				\$ 1,529,027
			\$ 1,628,640	Office Equipment—16.2%			
Drugs—8.8%				4,000	Automatic Data Processing	25%	\$ 100,623
8,675	Merck Inc.	78½	\$ 662,056	2,000	Honeywell	56¾	110,345
6,000	Upjohn Company	74%	433,844	5,918	I.B.M.	212¾	1,224,053
7,000	Syntex Corp.	44½	302,840	10,000	Xerox Corp.	115%	1,119,245
			\$ 1,398,740				\$ 2,554,266
Electrical Equipment—1.8%				Personal Care—0.7%			
6,200	General Electric Company	49¼	\$ 296,861	2,000	Chesebrough-Pond's	57	\$ 110,831
Electronics—8.3%				Photography—3.6%			
11,000	A.M.P. Incorporated	38¾	\$ 414,400	5,625	Eastman Kodak	103%	\$ 568,053
2,000	Farinon Electric	14¼	27,708	Retail Trade—16.2%			
17,000	Perkin-Elmer Corp.	30¼	499,954	4,800	House of Fabrics Inc.	5%	\$ 26,249
20,000	Sony Corp.	18%	364,575	23,000	S. S. Kresge Co.	34	760,260
			\$ 1,306,637	15,000	Marcor Inc.	26½	380,981
Foods & Beverages—2.5%				9,000	J. C. Penny & Co.	72½	634,361
3,700	Coca Cola Co.	108	\$ 388,491	10,000	Rubbermaid Inc.	28	272,216
Hospital Supply—8.9%				6,000	Sears Roebuck	82%	483,426
14,000	Baxter Laboratories	37½	\$ 510,405				\$ 2,557,493
7,000	Johnson & Johnson	113¼	770,712	Service—2.8%			
5,000	Medtronic Inc.	24½	119,095	13,000	American Express	34%	\$ 439,191
			\$ 1,400,212	Utilities—2.5%			
Insurance—1.6%				8,000	Continental Telephone Corp.	13%	\$ 106,942
10,000	Colonial Penn Group	26%	\$ 253,987	10,000	Southern New England Telephone	29¼	284,369
							\$ 391,311
				Reserve—6.1%			
				Cash & Short Term Notes			
				Total Assets at Market, June 30, 1974			
							\$15,786,760

Portfolio Balance

	June 30/73	March 31/74	June 30/74
Common Stocks & Equivalents	87.6%	91.6%	93.9%
Reserve	12.4%	8.4%	6.1%
	100.0%	100.0%	100.0%

Portfolio Composition

	June 30/73	March 31/74	June 30/74
Consumer Products & Services	41.3%	49.2%	51.8%
Cyclical	5.1%	7.5%	9.7%
Energy	2.4%	—	—
Regulated	5.1%	3.9%	2.5%
Technology	33.7%	31.0%	29.9%
Reserve	12.4%	8.4%	6.1%
	100.0%	100.0%	100.0%

Largest Common Stock Holdings as at June 30, 1974 (By Market)

	Percent of Total Portfolio
International Business Machines Corp.	7.8%
Xerox Corp.	7.1%
Johnson & Johnson	4.9%
S. S. Kresge Co.	4.8%
Merck Inc.	4.2%

There was a fairly steady downtrend in the U.S. Market during the quarter. Some disparity opened between the Dow Jones Industrials and the broader indexes, as can be seen in the table below.

Performance of Major Indexes

	30 June 1974	Second Quarter Change %	% Change Last 12 Months
Dow Jones Industrials	802.41	— 5.23	—10.01
Standard & Poor 425	97.39	— 7.32	—16.56
Standard & Poor 500	86.00	— 8.50	—17.06
N.Y.S.E. Composite	44.90	—10.58	—18.13

The decline in the New York Stock Exchange Composite Index was double that of the more specialized Dow Jones Industrial Average. Some of the big old blue chips like Alcoa, General Motors, Dupont & U.S. Steel have been holding well in this weak market. The biggest losses seem to be in the high multiple premium growth stocks, which are represented by only a few issues in the Dow Jones Industrials, but have a significant weighting in the broader indexes.

Price-earnings ratios continue to decline as we see on the following table.

	30 June Close	Latest 12 Months Earnings	Price Earnings Ratio
Standard & Poor 425	97.39	8.86	11.0
Dow Jones Industrials	802.41	86.16	9.3

These ratios are below those of most previous market bottoms. They are a good indication of the excellent value to be found in the stock market.

During the quarter Southern California Edison was eliminated from the Fund.

The positions of AMP Incorporated, Upjohn Company, Marcor Inc., Sears Roebuck, General Electric Company and House of Fabrics were all reduced.

The existing positions of Perkin Elmer Corp., Huyck Corporation, Baxter Laboratories and Masco Corporation were all increased.

Two new stocks, Rubbermaid Incorporated and Syntex Corporation were added to the portfolio.

The consumer products and services sector was 52% of the Fund at 30 June 1974 compared to 49% at the end of the previous quarter. The technology sector was 30% of the Fund at 30 June 1974 compared to 31% at the end of the previous quarter.

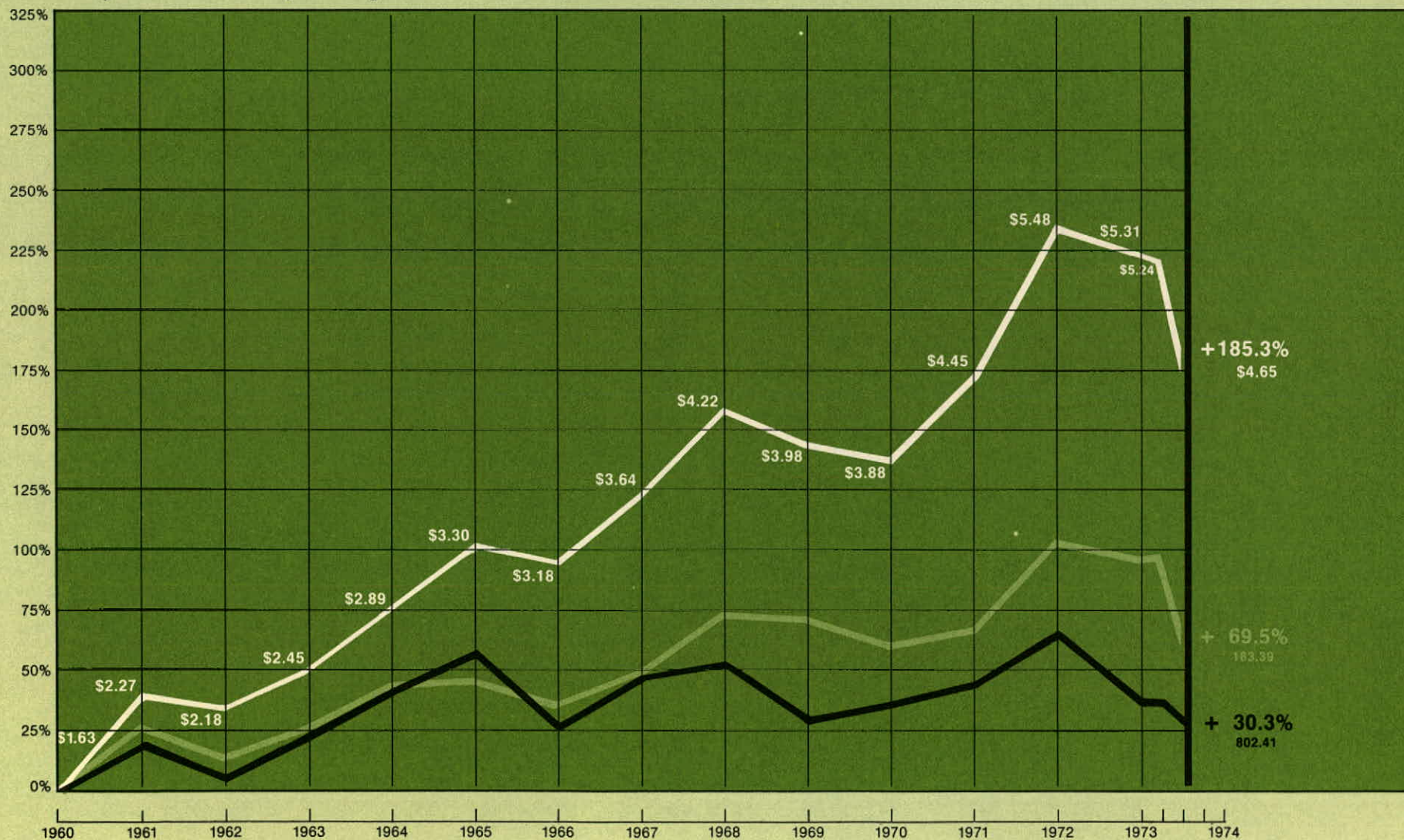
The cash reserve was 6.1% at 30 June 1974 which is below the 8.4% level of the first quarter and equal to the 6% cash reserve at year end 1973.

Andreae Equity Investment Fund Limited

Comparisons between	GRAPH COLOUR	VALUE JUNE 30/74	VALUE DEC. 31/60	PERCENTAGE CHANGE SINCE DEC. 31/60
Andreae Equity Fund (Excl. Div.)	□	\$ 4.65	\$ 1.63	+ 185.3%
T.S.E. Industrial Index	■	183.39	108.20	+ 69.5%
Dow Jones Industrial Average	■	802.41	615.89	+ 30.3%

The Andreae Equity Investment Fund is an open-end mutual Fund managed by International Trust.

These comparisons are based upon changes from December 31, 1960 to June 30, 1974



Unit Values of Diversified Investment Funds Since Inception

	Fixed Income Fund			Mortgage Fund			Canadian Equity Fund			International Equity Fund		
	UNIT VALUE	INCOME QTR/MO.	VALUE INCL. INC.	UNIT VALUE	INCOME QTR/MO.	VALUE INCL. INC.	UNIT VALUE	INCOME QTR/MO.	VALUE INCL. INC.	UNIT VALUE	INCOME QTR/MO.	VALUE INCL. INC.
1966 Dec. 31	\$10.00		\$10.00				\$10.00		\$10.00	\$10.00		\$10.00
1967 Mar. 31	10.35	\$.15250	10.50				11.02	\$.08496	11.11	11.34	\$.07453	11.42
Jun. 30	9.93	.15802	10.24				11.45	.06572	11.61	11.55	.03725	11.67
Sept. 30	9.64	.15580	10.10				12.25	.08703	12.51	12.60	.05288	12.79
Dec. 31	9.52	.15734	10.14				12.65	.09396	13.02	13.28	.05561	13.54
1968 Mar. 31	9.31	.15230	10.08				11.70	.04903	12.09	11.70	.08460	12.01
Jun. 30	9.27	.15638	10.20				13.82	.11686	14.41	13.01	.08619	13.44
Sept. 30	9.40	.14994	10.51				15.80	.08629	16.57	13.05	.04973	13.54
Dec. 31	9.45	.14652	10.73				17.06	.11004	18.00	13.67	.05368	14.24
1969 Mar. 31	9.52	.16292	11.00				17.43	.15656	18.56	12.43	.06699	13.02
June 30	9.42	.16498	11.07				16.17	.15326	17.37	11.90	.06998	12.53
Sept. 30	9.37	.18507	11.23				16.39	.16343	17.79	11.62	.12530	12.37
Dec. 31	9.05	.20602	11.09				16.99	.11949	18.57	11.40	.12480	12.27
1970 Mar. 31	9.26	.17651	11.57				15.54	.15469	17.15	10.72	.12092	11.66
June 30	9.18	.18571	11.70				12.93	.13116	14.40	8.76	.11073	9.64
Sept. 30	9.30	.19003	12.10				13.82	.17910	15.60	9.83	.06254	10.89
Dec. 31	9.64	.19492	12.80				14.03	.13295	15.98	10.62	.04831	11.82
1971 Mar. 31	9.82	.19593	13.33				15.03	.12995	17.28	11.84	.05244	13.24
June 30	9.64	.18892	13.31				15.04	.12842	17.44	12.30	.04849	13.81
Sept. 30	9.90	.20070	13.96				14.59	.11095	17.05	11.79	.05142	13.30
Dec. 31	10.06	.19743	14.46				15.19	.10311	17.87	12.32	.05237	13.96
1972 Mar. 31	10.00	.18497	14.64				16.60	.11675	19.67	13.30	.04940	15.14
June 30	9.93	.18826	14.81				16.95	.11314	20.21	13.46	.04650	15.37
Sept. 30	9.97	.18887	15.16				17.78	.09474	21.32	13.92	.05572	15.96
Dec. 31	10.16	.18626	15.73				18.95	.12469	22.88	14.87	.04958	17.11
1973 Mar. 31	10.13	.18029	15.96				18.87	.09384	22.90	13.94	.06410	16.11
Jun. 30	9.88	.17908	15.85				17.50	.12377	21.38	13.22	.05627	15.36
Sept. 30	9.77	.19265	15.99	9.92	.13906	10.07	19.24	.10939	23.64	13.98	.06974	16.32
Dec. 31	9.71	.19317	16.21	9.92	.20852	10.28	18.32	.16836	22.73	12.11	.05223	14.19
1974 Jan. 31	9.74	.06616	16.38	9.92	.07992	10.37	18.32	.02153	22.75	11.45	.01196	13.44
Feb. 28	9.73	.06128	16.46	9.93	.07038	10.44	18.91	.04352	23.53	11.26	.01289	13.23
Mar. 31	9.61	.06593	16.36	9.86	.07408	10.45	18.24	.06004	22.77	11.14	.02506	13.11
Apr. 30	9.32	.06527	15.98	9.72	.06721	10.37	16.56	.03075	20.71	10.67	.01689	12.58
May 31	9.18	.06526	15.86	9.68	.07343	10.41	15.61	.06901	19.61	10.57	.01532	12.48
June 30	9.07	.06448	15.77	9.69	.07077	10.49	15.18	.09744	19.19	10.22	.02185	12.10

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INTERNATIONAL TRUST COMPANY

AFFILIATED WITH

FIRST NATIONAL CITY BANK

TORONTO

101 RICHMOND STREET WEST

MONTREAL

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